

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BEC 1834 – MICROECONOMICS

(All Sections / Groups)

11 OCTOBER 2017
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **TEN (10)** pages excluding cover page.
2. Answer **ALL** questions in **Section A** and **Section B**.
3. The answers for **Section A** should be shaded on the Multiple-Choice Answer Sheet.
The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [40 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the multiple-choice answer sheet.

1. The study of economics
 - A. is a very narrow endeavor.
 - B. is a way of analyzing decision-making processes caused by scarcity.
 - C. is concerned with proving that capitalism is better than socialism.
 - D. focuses on how a business should function.
2. Which of the following involve a tradeoff?
 - A. Buying a new car.
 - B. Going to university.
 - C. Taking a nap.
 - D. All of the above involve tradeoffs.
3. Which of the following statements is true about a market economy?
 - A. Market participants act as if guided by an “invisible hand” to produce outcomes that maximize social welfare.
 - B. Taxes help prices communicate costs and benefits to producers and consumers.
 - C. With a large enough computer, central planners could guide production more efficiently than markets.
 - D. The strength of a market system is that it tends to distribute resources evenly across consumers.
4. Decisions are best made by weighing
 - A. internal benefits and external costs.
 - B. external benefits and internal costs.
 - C. average benefits and average costs.
 - D. marginal benefits and marginal costs.
5. Opportunity cost is
 - A. that which we forgo, or give up, when we make a choice or a decision.
 - B. a cost that cannot be avoided, regardless of what is done in the future.
 - C. the additional cost of producing an additional unit of output.
 - D. the additional cost of buying an additional unit of a product.
6. Productivity can be increased by
 - A. Raising minimum wages.
 - B. Raising union wages.
 - C. Improving the education of workers.
 - D. Restricting trade with foreign countries.

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7. Which of the following statements regarding the circular-flow diagram is true?
- A. The factors of production are owned by households.
 - B. If Susan works for IBM and receives a paycheck, the transaction takes place in the market for goods and services.
 - C. The factors of production are owned by firms.
 - D. If IBM sells a computer, the transaction takes place in the market for factors of production.
8. Economic models are
- A. created to duplicate reality.
 - B. built with assumptions.
 - C. usually made of wood and plastic.
 - D. useless if they are simple.
9. Which of the following is not a factor of production?
- A. Land.
 - B. Labor.
 - C. Capital.
 - D. Money.
10. Points on the Production Possibilities Frontier (PPF) are
- A. efficient.
 - B. inefficient.
 - C. unattainable.
 - D. normative.
11. Which of the following will not shift a country's production possibilities frontier outward?
- A. An increase in the capital stock.
 - B. An advance in technology.
 - C. A reduction in unemployment.
 - D. An increase in the labor force.
12. Economic growth is depicted by
- A. A movement along a production possibilities frontier toward capital goods.
 - B. A shift in the production possibilities frontier outward.
 - C. A shift in the production possibilities frontier inward.
 - D. A movement from inside the curve toward the curve.
13. Which of the following issues is related to microeconomics?
- A. The impact of money on inflation.
 - B. The impact of technology on economic growth.
 - C. The impact of the deficit on saving.
 - D. The impact of oil prices on car production.

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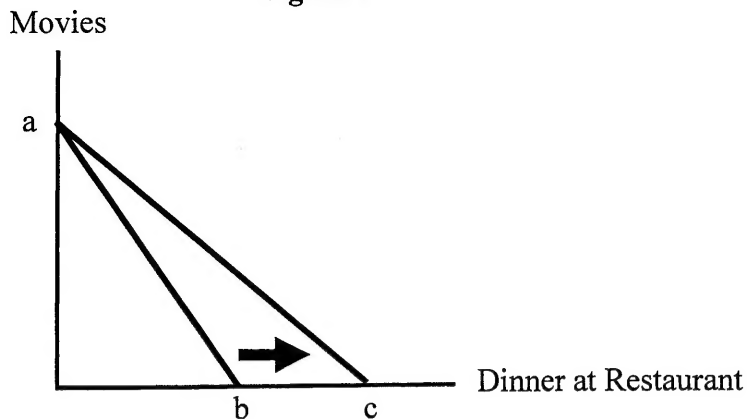
14. Which of the following statements is normative?
- A. Printing too much money causes inflation.
 - B. People save more money when interest rate is higher.
 - C. The unemployment rate should be lower.
 - D. Large government deficits cause an economy to grow more slowly.
15. Positive statements are
- A. microeconomic.
 - B. macroeconomic.
 - C. statements of prescription that involve value judgements.
 - D. statements of description that can be tested.
16. The law of demand states that an increase in the price of a good
- A. decreases the demand for that good.
 - B. decreases the quantity demanded for that good.
 - C. increases the supply of that good.
 - D. none of the above.
17. Which of the following shifts the demand for watches to the right?
- A. A decrease in the price of watches.
 - B. A decrease in consumer incomes if watches are a normal good.
 - C. A decrease in the price of watch batteries if watch batteries and watches are complements.
 - D. An increase in the price of watches.
18. If the price of a good is above the equilibrium price,
- A. there is a surplus and the price will rise.
 - B. there is a surplus and the price will fall.
 - C. there is a shortage and the price will rise.
 - D. there is a shortage and the price will fall.
19. An decrease (leftward shift) in the supply for a good, *ceteris paribus*, will tend to cause
- A. An increase in the equilibrium price and quantity.
 - B. A decrease in the equilibrium price and quantity.
 - C. An increase in the equilibrium price and a decrease in the equilibrium quantity.
 - D. A decrease in the equilibrium price and an increase in the equilibrium quantity.
20. Which of the following statements is true about the impact of an increase in the price of lettuce?
- A. The demand for lettuce will decrease.
 - B. The supply of lettuce will decrease.
 - C. The equilibrium price and quantity of salad dressing will rise.
 - D. The equilibrium price and quantity of salad dressing will fall.

Continued...

21. Assume beef and leather belts made of cow's hide are complements in production. If your concern about health and diet shifts the demand curve for beef leftward, the result in the market for leather belts will be
- A. a lower price and a smaller quantity supplied.
 - B. a lower price and a larger quantity supplied.
 - C. a higher price and a smaller quantity supplied.
 - D. a higher price and a larger quantity supplied.
22. Which of the following correctly describes how price adjustment eliminates a shortage?
- A. As the price rises, the quantity demanded decreases while the quantity supplied increases.
 - B. As the price rises, the quantity demanded increases while the quantity supplied decreases.
 - C. As the price falls, the quantity demanded decreases while the quantity supplied increases.
 - D. As the price falls, the quantity demanded increases while the quantity supplied decreases.
23. Suppose that the short-run price elasticity of demand for oil is 0.1. Then, in order to boost the price of oil by 20 percent, the quantity of oil must be
- A. decreased by 200 percent.
 - B. decreased by 20 percent.
 - C. decreased by 2 percent.
 - D. decreased by 0.2 percent.
24. A good is likely to be more price elastic when
- A. its price falls.
 - B. the percentage of income spent on it decreases.
 - C. it is a necessity.
 - D. it has close substitutes.
25. If a price decrease results in an increase in total revenue, demand must be
- A. inelastic in that range.
 - B. elastic in that range.
 - C. unit elastic in that range.
 - D. linear in that range.

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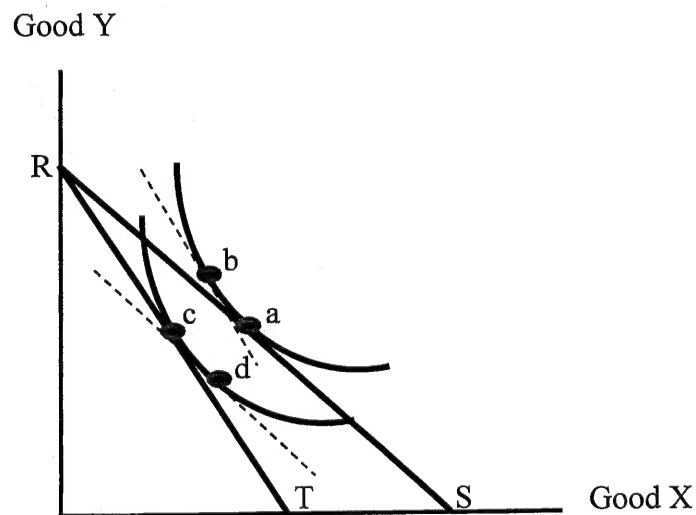
26.

Figure 1

In **Figure 1**, Mark's monthly budget constraint for movies and dinner at restaurant changed, as shown by the arrow. The change was caused by

- A. a decrease in Mark's income.
- B. an increase in Mark's income.
- C. a fall in the price of a play.
- D. a rise in the price of a play.

27.

Figure 2

In **Figure 2**, if the budget line shifts from RT to RS, the substitution effect is illustrated by the move from

- A. a to d.
- B. a to b.
- C. c to d.
- D. c to a.

Continued...

28. The principle of diminishing marginal utility means that the consumer surplus from the second slice of pizza is
- A. greater than that from the first.
 - B. equal to that from the first.
 - C. less than that from the first.
 - D. not comparable to that from the first.
29. Diminishing marginal returns refer to a situation in which the
- A. marginal cost of the last worker hired is less than the marginal cost of the previous worker hired.
 - B. average cost of the last worker hired is less than the average cost of the previous worker hired.
 - C. marginal product of the last worker hired is less than the marginal product of the previous worker hired.
 - D. average product of the last worker hired is less than the average product of the previous worker hired.
30. Which of the following is **FALSE**?
- A. Long-run average variable costs equal long-run average total costs.
 - B. Fixed costs decline in the long run.
 - C. Eventually, a firm will experience decreasing returns to scale.
 - D. In the long-run fixed costs are zero.
31. In perfect competition, the product of a single firm
- A. has many perfect substitutes.
 - B. has many perfect complements.
 - C. is sold under many differing brand names.
 - D. is sold to different customers at different prices.
32. A competitive firm is more likely to shut down during a recession, when the demand for its product declines, than during an economic expansion, because during the recession it may be unable to cover its
- A. fixed costs.
 - B. variable costs.
 - C. historic costs.
 - D. depreciation due to machinery becoming obsolete.
33. Which of the following is true for both monopoly and competition?
- A. There is no market supply curve.
 - B. Economic profits result in market entry.
 - C. Firms shut down if losses exceed fixed cost.
 - D. Economic profits can be sustained over time.

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34. The marginal revenue curve for a monopoly

- A. lies below the demand curve.
 - B. coincides with the demand curve.
 - C. lies above the demand curve.
 - D. is horizontal.
35. A monopolist who has a _____ *ATC* schedule and charges the same monopoly price to all buyers appropriates less consumer surplus as profit than a perfect price discriminator does.
- A. vertical
 - B. horizontal
 - C. U-shaped
 - D. downward-sloping
36. Excess capacity and high advertising expenditures are costs of
- A. perfect competition.
 - B. monopolistic competition.
 - C. monopoly.
 - D. oligopoly.
37. In long run, all firms in an industry that is monopolistically competitive earn
- A. negative accounting profit.
 - B. zero accounting profit.
 - C. negative economic profit.
 - D. zero economic profit.
38. Which of the following is characteristic of oligopoly, but not of monopolistic competition?
- A. The choices made by one firm have a significant effect on other firms.
 - B. Each firm faces a downward-sloping demand curve.
 - C. Firms are profit-maximizers.
 - D. There is more than one firm in the industry.

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39.

Table 1

		Becky	
		Confess	Don't confess
Jayden	Confess	B: 10 years J: 10 years	B: 20 years J: 1 year
	Don't Confess	B: 1 years J: 20 years	B: 2 years J: 2 years

Table 1 displays the possible outcomes for Jayden and Becky, who have been arrested for armed robbery and car theft. Which of the following is true?

- A. If Jayden confesses, Becky should not confess.
 - B. If Becky confesses, Jayden should confess.
 - C. The outcome of the game, even though Jayden and Becky cannot collude, is that they will both serve 2 years.
 - D. If Jayden not confess, Becky should not confess.
40. An increase in the demand for a factor of production normally
- A. decrease both its price and its quantity supplied.
 - B. increase both its price and its quantity supplied.
 - C. decreases its price but increases its quantity supplied.
 - D. increases its price but decreases its quantity supplied.

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SECTION B: STRUCTURED QUESTIONS [60 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

- a) Define economics. Differentiate between microeconomics and macroeconomics.
(6 marks)
- b) Draw the basic circular flow diagram. Label all components and arrows correctly.
(6 marks)
- c) Define opportunity cost and give **THREE (3)** examples of important trade-offs that you face in your life.
(8 marks)

[TOTAL 20 MARKS]

Question 2

- a) Define the law of supply and state the relationship between the price of a good and the quantity supplied.
(3 marks)
- b) Using a supply-and-demand diagram for each question, show the effect on the supply or demand curves (increases or decreases, shifts to the left or right), equilibrium price and quantity (increase or decrease) of the following events on the market for **personal computers**.
 - i) The price of computer chips (an input in making personal computers) fall.
 - ii) There is a rise in the preference for tablet computer over personal computer.
(12 marks)
- c) Define price ceiling and price floor.
(2 marks)
- d) If the government sets a price floor for milk that is above the competitive equilibrium price. Draw a graph to illustrate the above situation. Please show the competitive equilibrium price, the price floor, the quantity that would be sold in competitive equilibrium, and the quantity that would be sold with the price floor.
(3 marks)

[TOTAL 20 MARKS]

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Question 3

- a) Julie Corporation produces biscuits. **Table 2** shows the relationship between the number of workers and output (in kilograms of biscuits) in a given day:

Table 2				
Workers	Output	Total Cost	Average Total Cost	Marginal Cost
0	0	10	---	---
1	28			
2	50			
3	67			
4	80			
5	90			
6	95			

Reproduce **Table 2** in your Answer Booklet and answer the following questions:-

- i) A worker costs RM30 a day, and the firm has fixed costs of RM10. Fill in the column of Total Cost.
(3 marks)
- ii) Fill in the column of Average Total Cost.
(3 marks)
- iii) Fill in the column of Marginal Cost.
(3 marks)
- b) States **THREE (3)** characteristics of perfect competition market.
(6 marks)
- c) Colgate is one of the many firms in the monopolistic competition market for toothpaste. Draw a diagram to show Colgate's demand curve, marginal-revenue curve, average-total-cost curve, and marginal-cost curve.
(5 marks)

[TOTAL 20 MARKS]

End of Paper